

TA THRASHER ANALYTICS

JANUARY 17, 2021



WEEKLY RESEARCH & ANALYSIS

BY ANDREW THRASHER, CMT

Bullish

- Support for SPX remains intact.
- Trend Model remains positive for almost all sectors and indices.
- The VRT 2.0 has not signaled.
- Long-term Breadth remains supportive.
- Pot'l international breakout.
- Market Health Report remains positive.

Bearish

- Equity sentiment is extremely high.
- Volatility dispersion is narrowing.
- U.S. dollar ticking higher.
- Bonds strengthening.
- Tesla and bitcoin weakening.
- Retail sentiment going nuts.
- failed break in financial sector.

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Volatility

Equities

Market Health Report

Fixed Income

International

Sectors

Sentiment

Trend Models

Sector Rotation: Jan.

Financails	XLF
Industrials	XLI
Materials	XLB

Fixed Income Rotation: Q1

20+ Yr Treasury	TLT
Muni Bond	MUB

Market Health Report

Breadth	3
Divergence	0
Momentum	4
Sentiment	2
Trend	1
Volatility	2
Total	12

Index & Sector

	Up Trend	Down Trend
SPX	X	
QQQ	X	
XLF	X	
XLY	X	
XLK	X	
XLV	X	
XLU	X	
XLP	X	
XLI	X	
XLRE	X	
XLE	X	
XLB	X	

Daily Sentiment Index

	% Bullish	5-day MA
S&P 500	75%	83%
Nasdaq 100	75%	82%
Nikkei	85%	89%
VIX	23%	16%
10yr Treasury	45%	43%
5yr Treasury	47%	47%
CRB Index	75%	78%
Gold	53%	60%
U.S. Dollar	34%	29%

*Green<25% Red>80%

source: trade-futures.com

Earnings season kicked off last week with several major banks reporting, we'll get several more (BofA and Goldman) on Tuesday once the market re-opens after the MLK holiday along with a ramp up of more earnings as we get further into the week. Biden's inauguration will take place on Wednesday, but outside of some kind of unplanned event/protest, it should not be market-moving. Sentiment remains elevated with NAAIM Exposure Index moving back above 100 (the average respondent is holding a leveraged long equity exposure) and 5-day average DSI for the S&P 500 and Nasdaq 100 still north of 80% bullish.

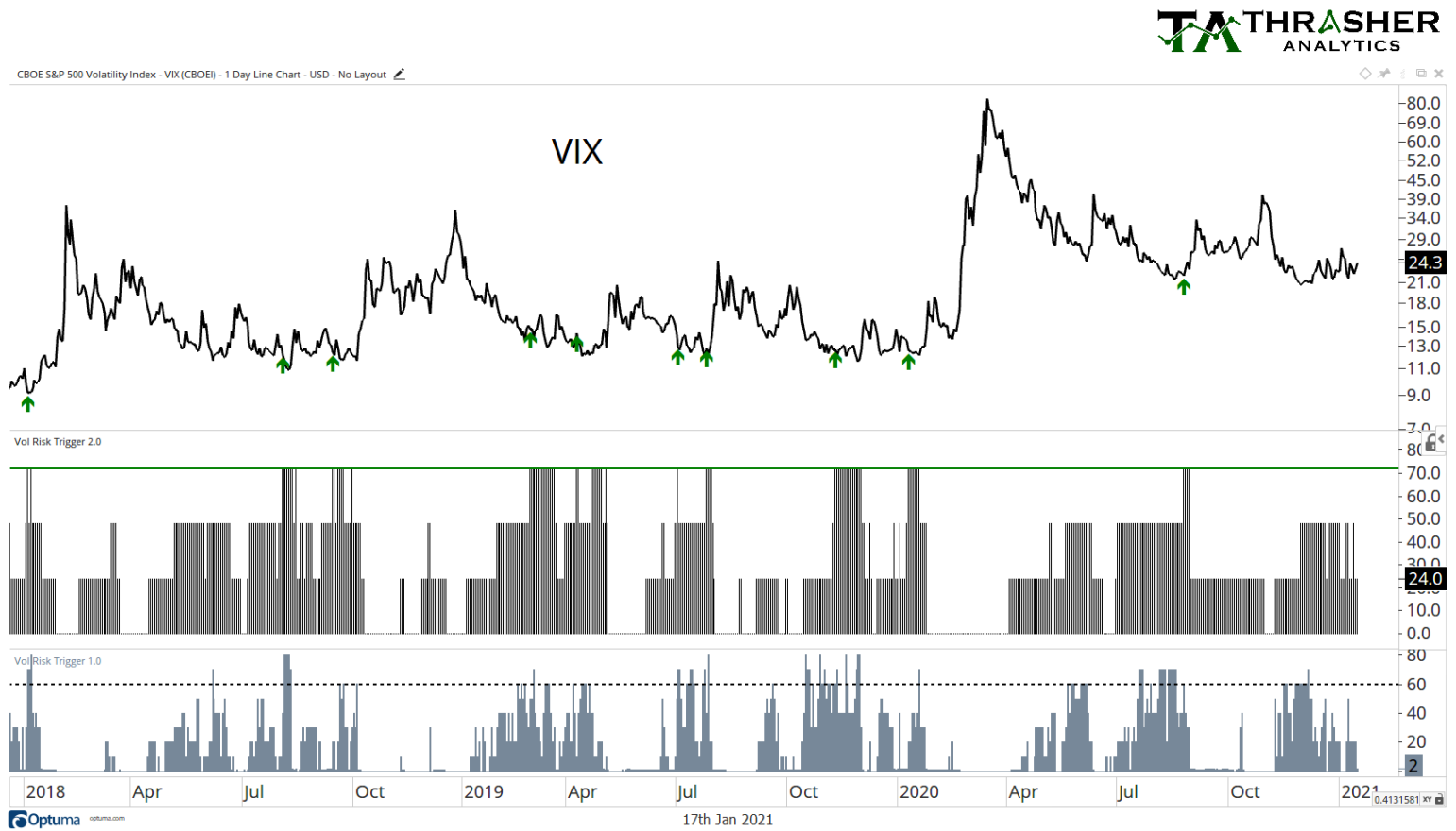
Last week's call for a peak in Tesla began to get confirmed this week, notably with Monday's 6% drop that was then followed by four days of consolidation under the January 8th open. Both positive days (Tues. and Weds.) saw below average volume less volume than the Monday decline, suggesting there was a large tick up interest to buy the Monday dip based on volume activity. The bearish call from last week on Bitcoin also continued to play out, falling 20% intraday on Monday and putting in a lower-high on the daily chart. More on bitcoin later in the letter and why it could fall 50%.

The dollar finished the week with a 0.6% advance following a 0.5% gain on Monday. The 10-yr Yield ticked slightly lower to 1.09% with the 5-yr yield failing to hold above its prior high as the yield curve steepened slightly. This comes on the back of poor December retail sales data and disappointing labor market reported on Friday. Biden unveiled his economic stimulus plan to the tune of over a \$1 trillion but it was largely what the market had expected so the response was muted.

Retail trading is continuing to set records in the options market with TikTok videos going viral of how easy it's become to make money in equities as accounts rise thousands of percent a month as a result of YOLO (you only live once) type "strategies". Parabolic runs in things like Tesla and Bitcoin has emboldened this group who haven't learned what volatility is just yet. That lesson will come eventually.

As a reminder, the below chart shows both the old Volatility Risk Trigger (VRT 1.0) as well as the new Volatility Risk Trigger (VRT 2.0).

The Volatility Risk Trigger 2.0 remains unchanged from the prior weeks. While the VIX refuses to go down, holding above 21.50 in a consolidation for the last several weeks, the VRT 2.0 has not given a signal to suggest a spike is likely to occur. The compression in the daily swings of the VIX has narrowed, but not to a significant level.



EQUITIES - S&P 500 DAILY



The S&P 500 finished the week lower by nearly 1.5%, taking the YTD performance into negative territory at one point on Friday before buyers came in at the 20-day moving average to push price up a few points. The 20-day MA has been an area of interest for dip buyers, working along with the Nov. low VWAP to dry up the brief periods of selling pressure over the last two months. On Friday we closed below the YTD VWAP so I'll be curious to see if the 20-day is able to continue to hold now that January Option Expiration is beyond us, a period I mentioned last week that could open the door for some selling, which we saw hints of on Friday. Finally, momentum is at the lower end of its bullish range, giving no clear up sign of strength or weakness at this point.



EQUITIES - NEW HIGHS



While I write quite a bit about the excessive sentiment in the market, the internals remain extremely strong. There's still a great deal of up trend support from individual stocks. The % of stocks above the 50-day moving average has dropped to 73% but we still have 89% above the 200-day MA, a huge chunk of the large cap index is in a firm up trend (above the long-term moving average). This suggests if we do see weakness enter the market, the strength from the internals should keep selling pressure muted and a decline in the indices short-lived.

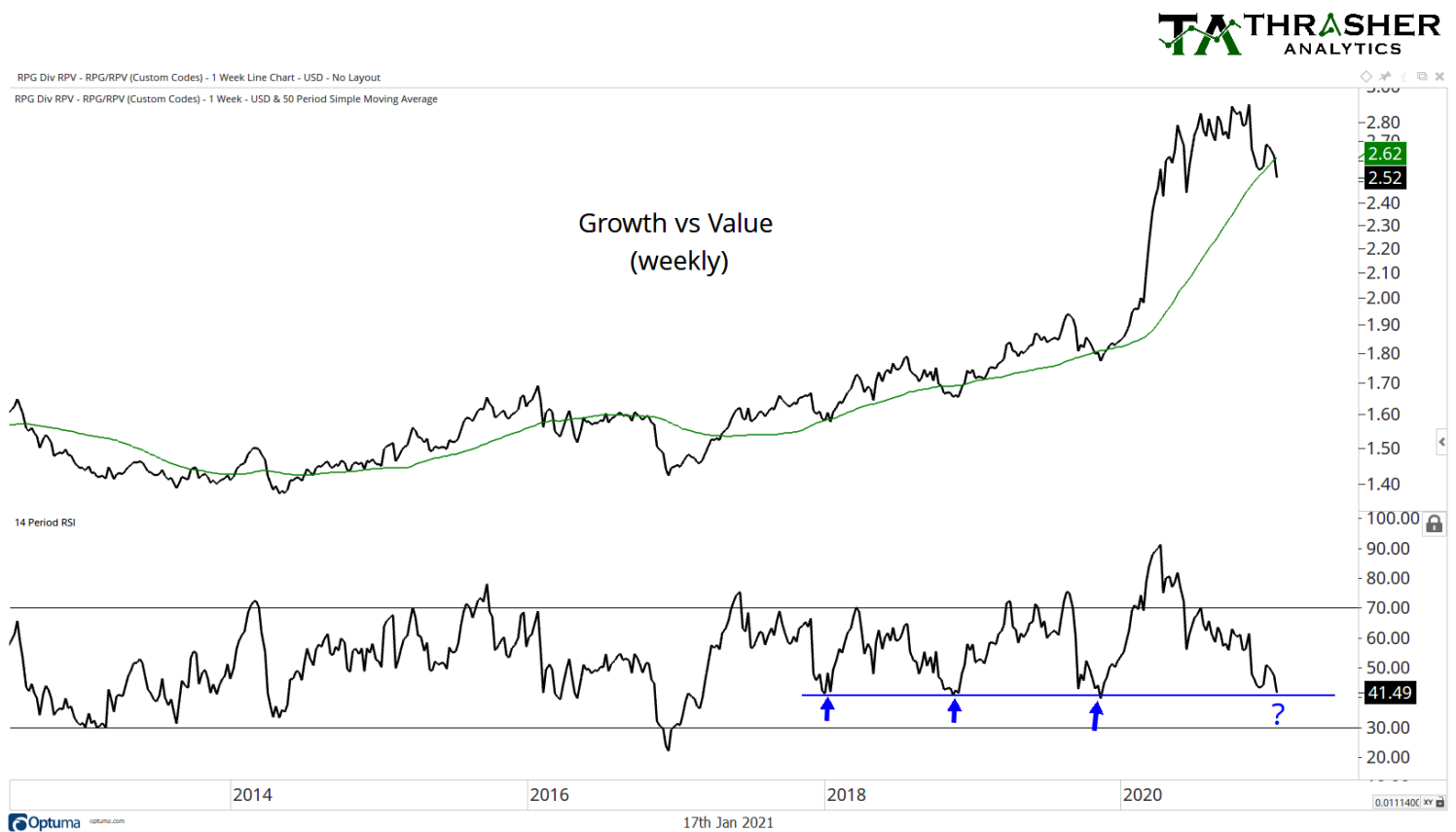


EQUITIES - GROWTH VS. VALUE



Time to check back in with the ratio of growth vs. value stocks has value has once again showed some strength recently.

Below is my favorite way of looking at growth vs value, a weekly chart of the ratio with the low-end of the range in momentum well-defined. We are now just about back to that level, with the ratio breaking below its 50-week moving average for the first time in twelve months. I'm watching if momentum holds this key level and growth remains in the driver seat or if this 4th test breaks the camel's back and value finally takes the wheel long-term.



EQUITIES - FAAMG



I've written previously how FAAMG stocks have stepped back from a leadership role in this market, still unable to break above the prior September high. That trend has continued with FAAMG not only declining on a relative basis (compared to SPX) but on an absolute basis as well, shown in the third panel of the chart below. An equal weighted index of the FAAMG stocks (FB, AMZN, AAPL, MSFT, GOOGL) made a lower-lower last week, breaking the prior January short-term low. Meanwhile, equal weight S&P 500 and SPX still sit well above their prior short-term dips from earlier this month.

The lack of relative strength in FAAMG in the back half of 2020 was absorbed as small caps took the lead but also because the FAAMG stocks were still rising, just not as much. Now they aren't even doing that. With the large weighting they hold in the major indices, weakness in an absolute sense (price going down) will be much harder for the market to ignore like it did with just poor relative performance. Something to keep an eye on.

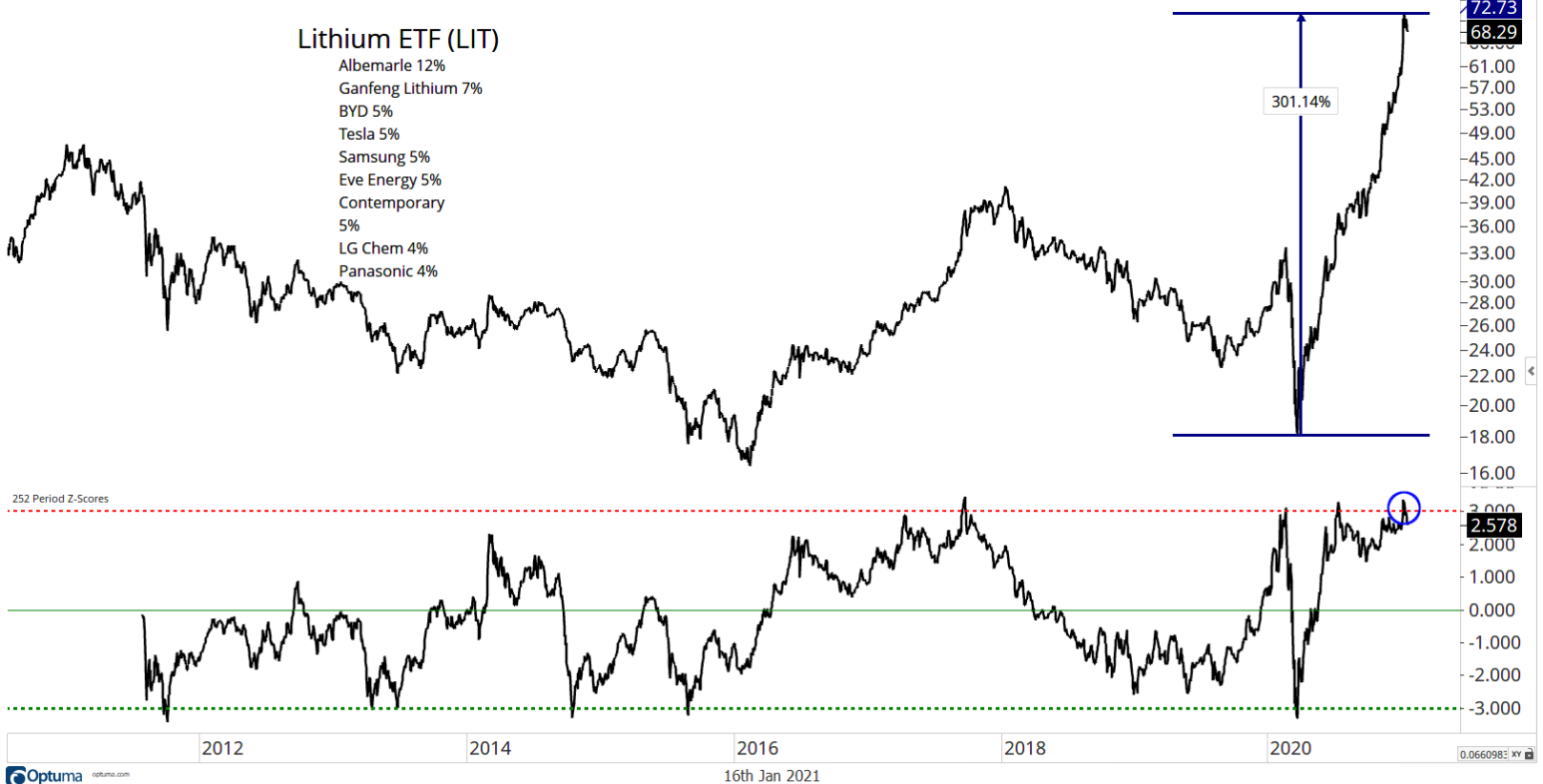


I wrote last week arguing a top in Tesla and I would extend that argument through what's transpired in the lithium equity complex via the Lithium ETF (LIT). While TSLA is a big player in this market its only 5% of the ETF so not as controlling as say AMZN at 20+% of XLY for instance. Lithium stocks are up 30% from the March low and reached a one year 3-sigma level before dipping lower last week. This extreme level of being stretched beyond its historical path has only been seen a couple times, each leading to significantly lower prices (2018 and Q1 '20 with the exception being the snapback rally off the March low which is normal following a crash like that). The fact that Tesla is showing topping price action, it'd be tough for the other lithium players to buck that trend. The entire electric vehicle (EV) market is stretched and I believe ripe for a pullback.

Global X Lithium ETF - LIT (US) - 1 Day Line Chart - USD - No Layout

Lithium ETF (LIT)

- Albemarle 12%
- Ganfeng Lithium 7%
- BYD 5%
- Tesla 5%
- Samsung 5%
- Eve Energy 5%
- Contemporary 5%
- LG Chem 4%
- Panasonic 4%



EQUITIES - DOW VS. RUSSELL



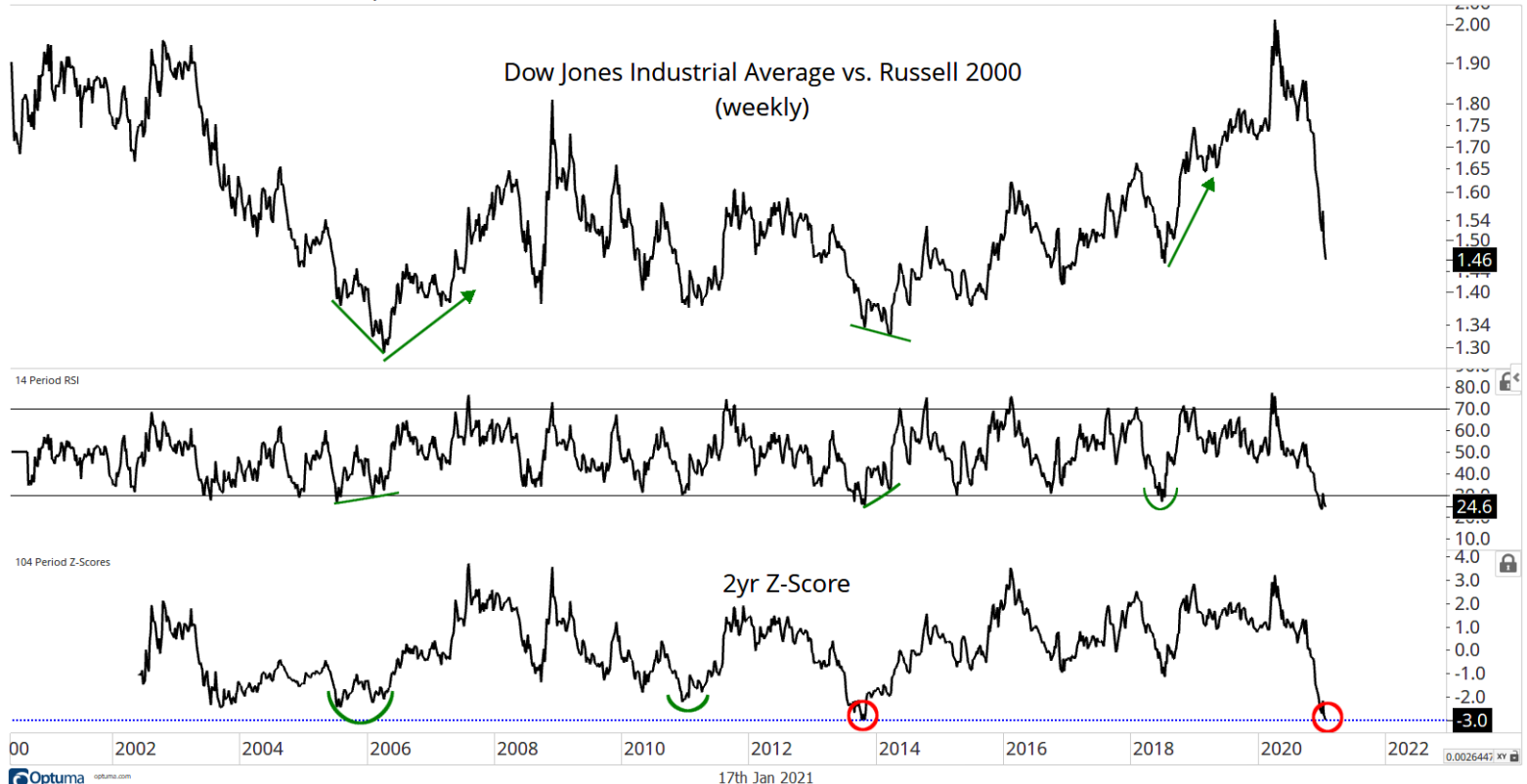
Well this call has not been working out. Is it too late to say it's just early instead of wrong? The ratio between the Dow Jones Industrial Average and the Russell 2000 has continued to move against the Dow and in favor of R2K. Momentum continues to hold below 30 and the 2yr Z-Score is now at a -3 sigma, matching the lowest reading in over twenty years, back in 2013. This rubber band is so stretched it's practically ready to snap apart.

If we were to look at 2013, the last time of a -3 sigma as a potential roadmap, a counter-trend bounce favoring the Dow followed by a final lower-low that setups a bullish divergence in momentum (RSI making a higher low) that marks the final turning point against small caps and in preference of the Dow 30.

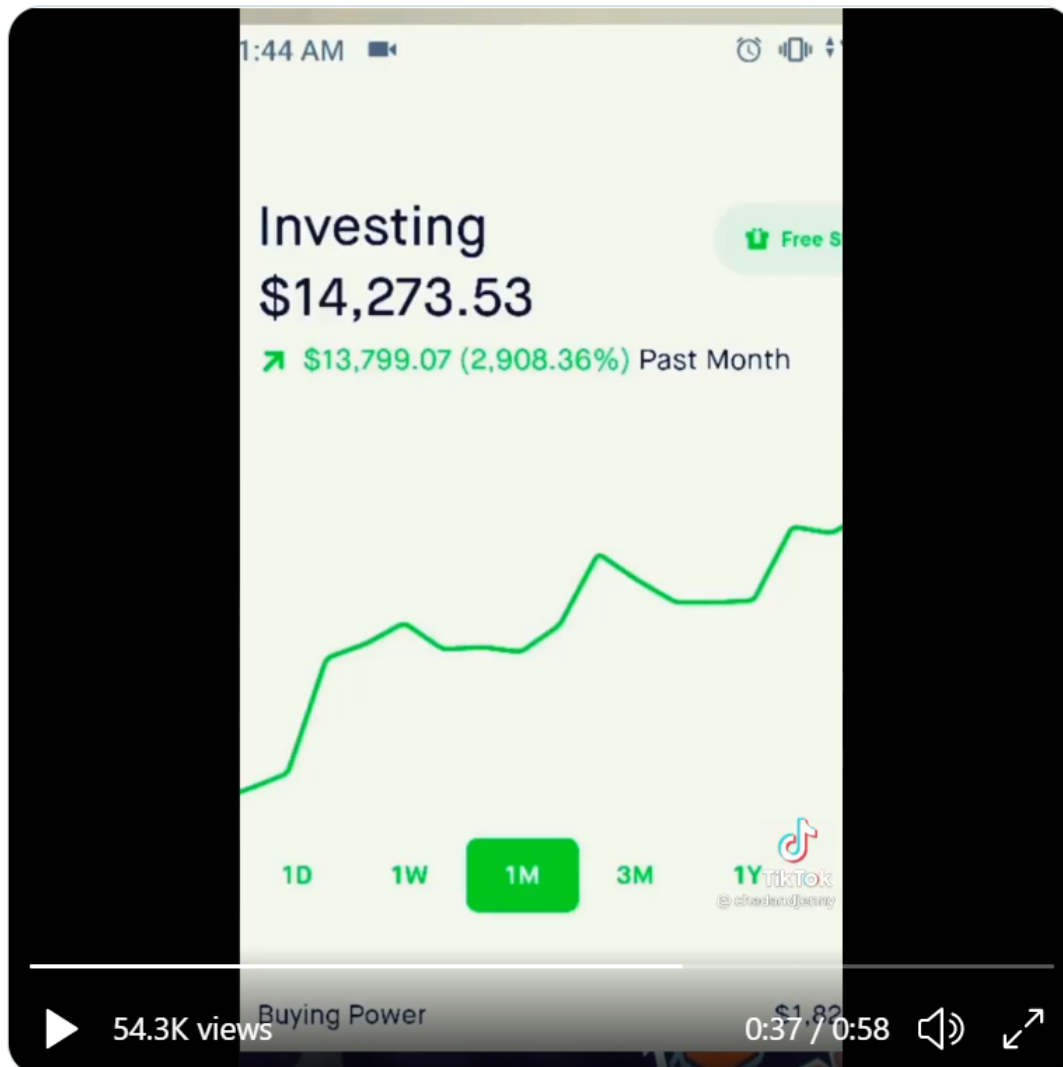
There's nothing that says we must follow the 2013 path, but I want to start seeing some price action work in the Dow's favor and a bullish momentum divergence would be a constructive sign that this mean-reversion pair will take place.



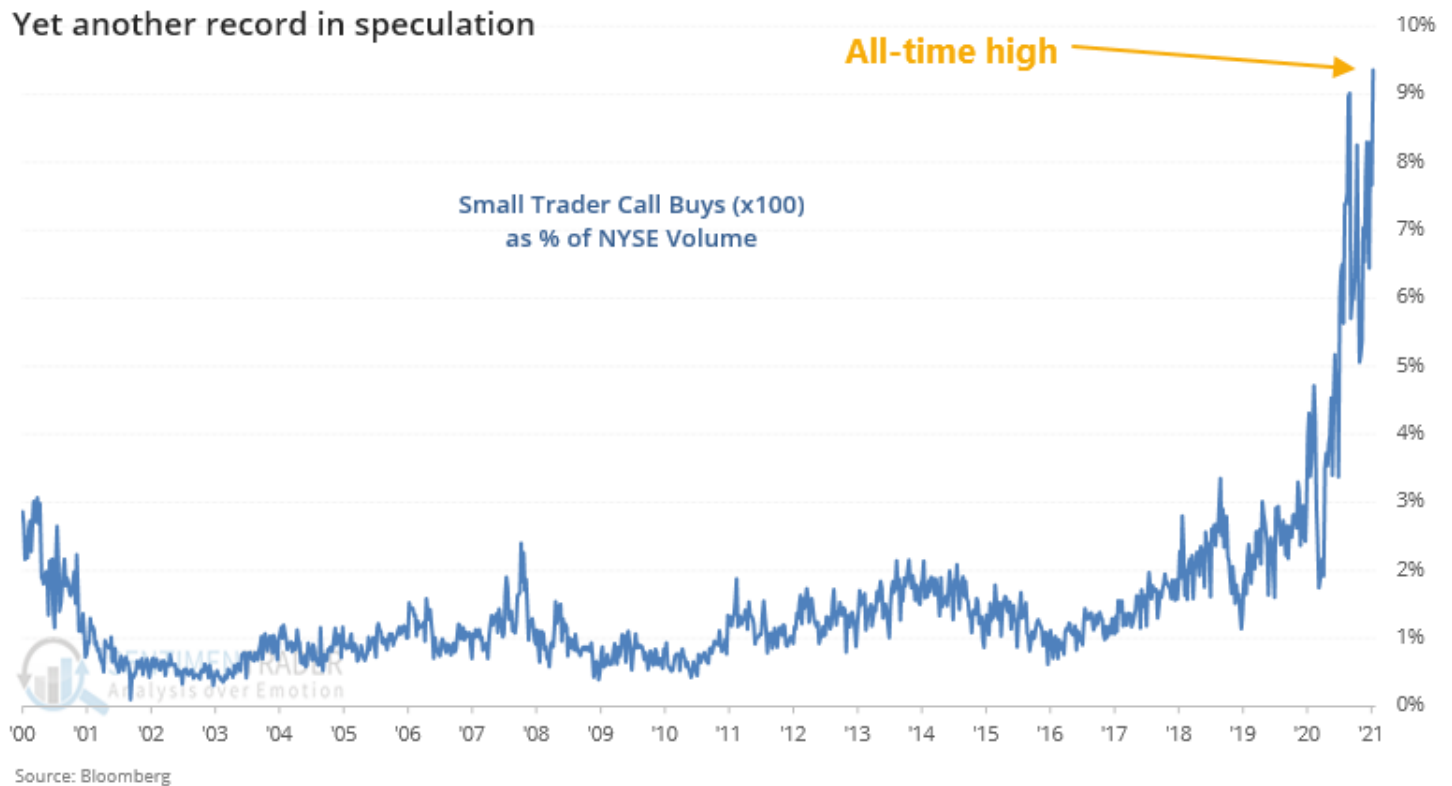
DIA Div IWM - DIA/IWM (Custom Codes) - 1 Week Line Chart - USD - No Layout



The rise of the Robinhood/Reddit/TikTok Trader helped define the 2020 strength in equities coming out of the March bottom and hasn't slowed down for a single minute. Videos continue to get published on social media platforms like TikTok showing just how easy to make money in the market. This screenshot from one such video below is a couple showing how they simply buy stocks that are going up and then quickly sell them if they go down a little, turning \$400 into nearly \$14,000 in December as they've now become full-time day traders. This is just one example but there are hundreds if not thousands of these kinds of videos going up by retail traders showing/bragging how easy it is to make money in the stock market by basically just throwing a dart. What time period does that remind you of?



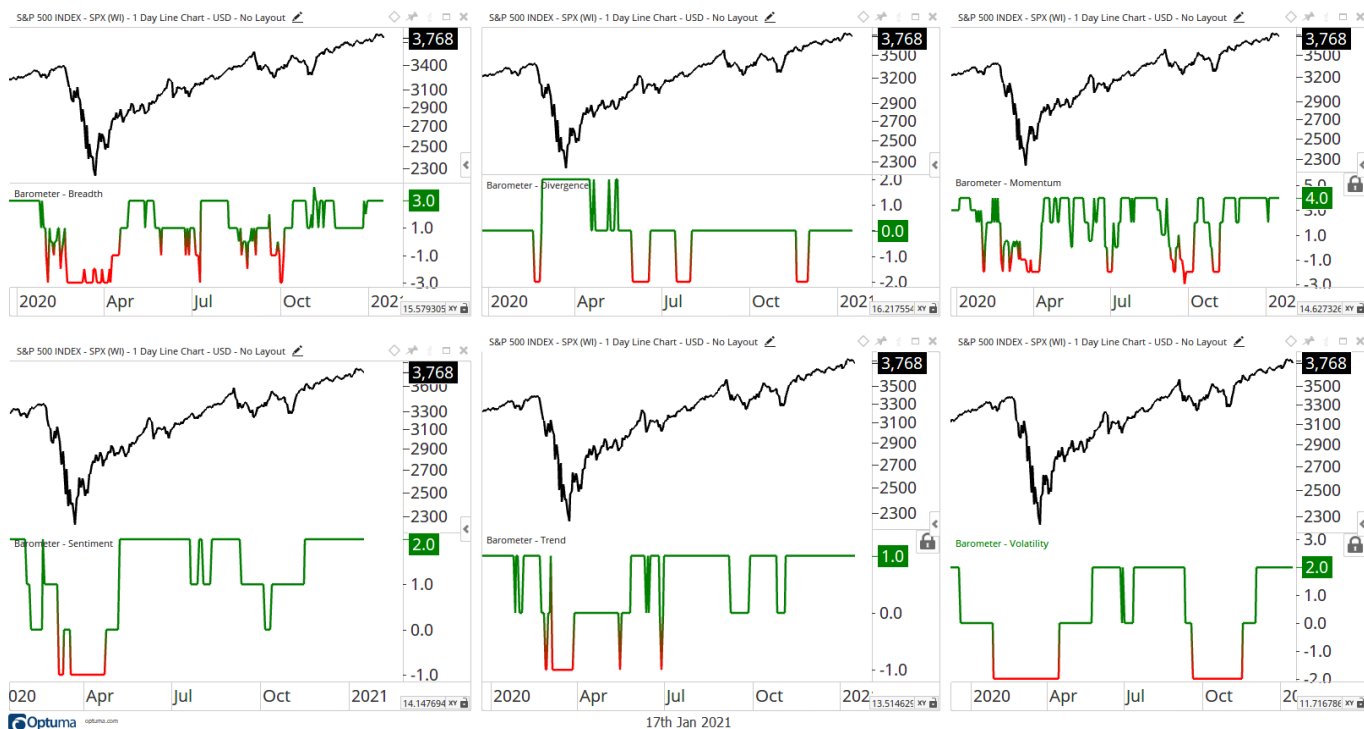
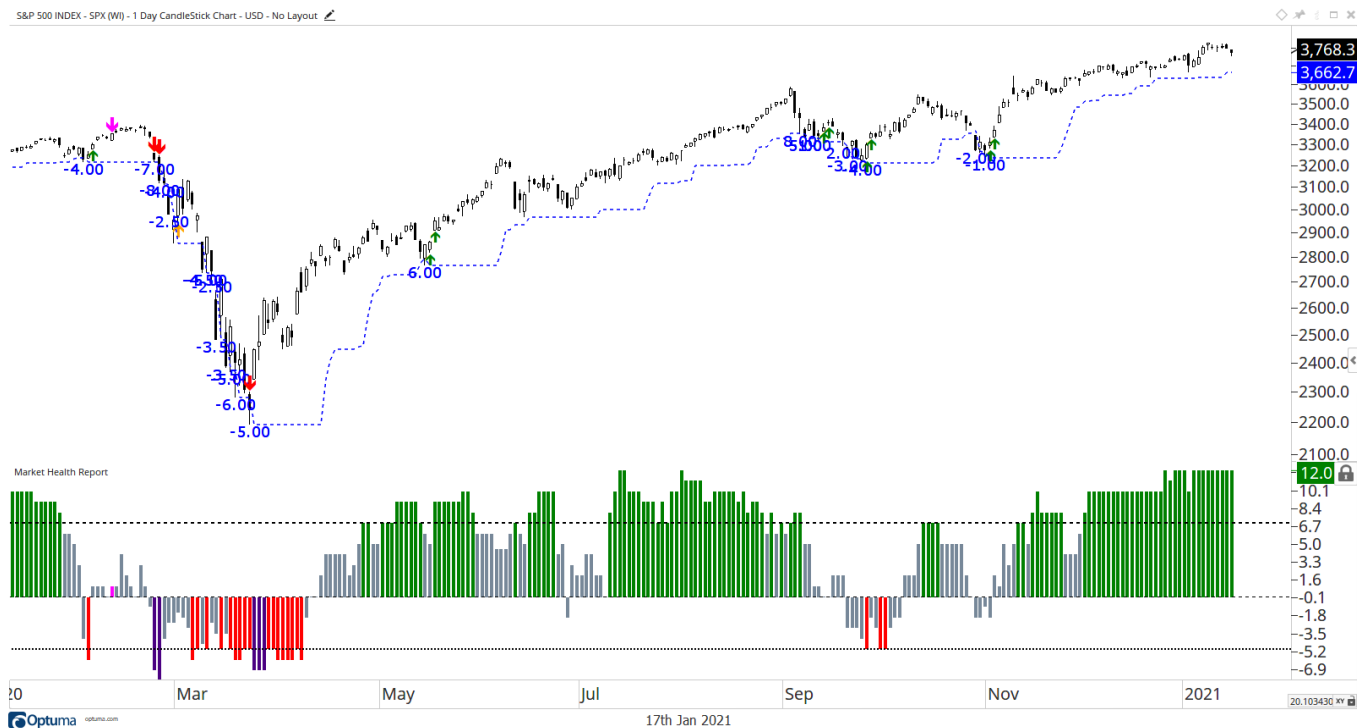
We can see the growth of the retail trader also in the options market, which continues to make new highs in call buying activity. This chart comes from [SentimenTrader](#) showing a new all-time high in call options in small lots as a percent of total NYSE volume.



MARKET HEALTH REPORT



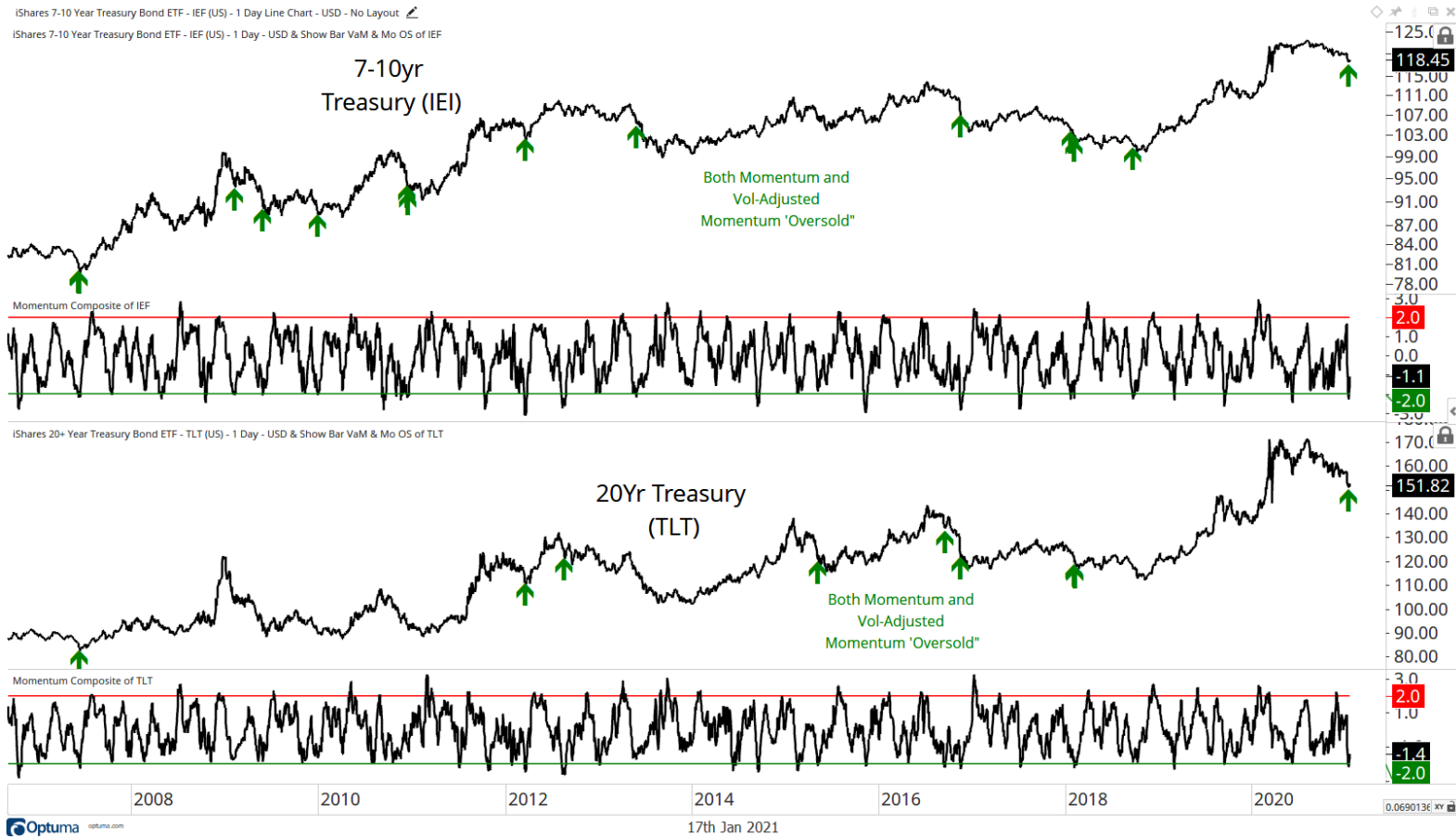
The Market Health Report remains supportive of the up trend in equities, sitting at a strong score of 12 and the S&P 500 well off its 15-day low.



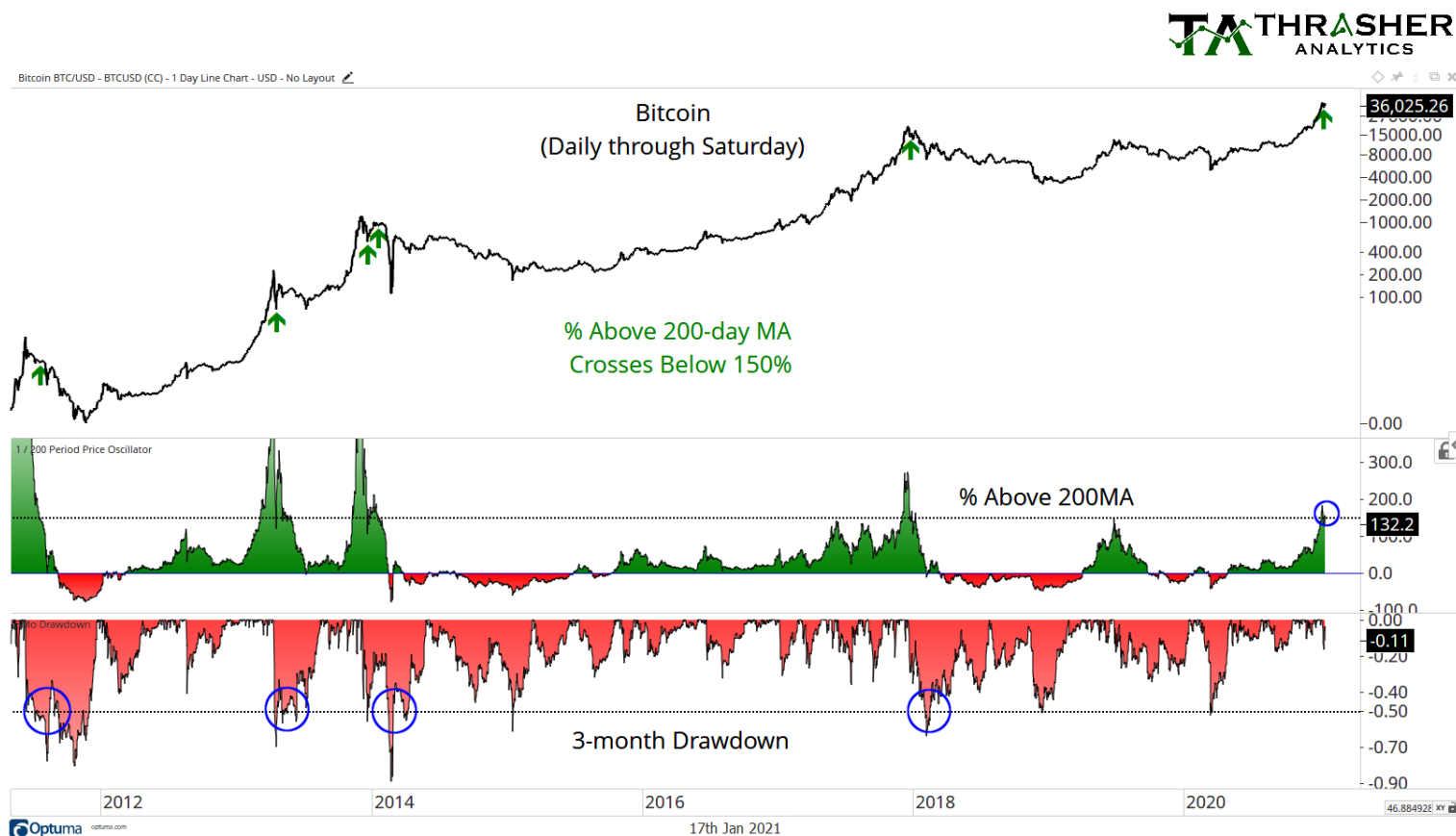
FIXED INCOME - OVERSOLD ETFs



Last week both the 7-10yr ETF (IEI) and 20+yr ETF (TLT) saw both the Momentum Composite and Volatility Adjusted Momentum indicators become 'oversold.' I've plotted green arrows on prior occurrences of this happened, the last being near the 2018 bottom in IEI and the first low for TLT. This suggests Treasury yields strength may cool as traders recognize the 'oversold' condition of Treasury debt. At the end of last week we saw both these fixed income ETFs tick higher, I'll be watching if that continues this week as well.



One of the arguments I made against bitcoin last week was that it was 176% above its 200-day moving average. That's sense relaxed, with the move lower in BTC, it's now "only" 132% above the long-term moving average. However, on previous run-ups in bitcoin, when the % above 200-MA moves below 150%, as price comes off the parabolic-like move, the resulting price action each time led to a 50+% drawdown. We saw it in February 2018 and before that in Dec. 2013 and again in Feb. 2014. Price didn't move in a straight line, but the drop back below 150% (there's nothing special about this level, it just signify price has moved lower off being extremely stretched to the upside), it continued that downward trend. I zoom in a little more on the price action for BTC on the next page.



If we do see bitcoin continue to decline, unable to recapture and hold above the 10-day moving average then I'm watching a couple different price levels. Specifically the December and September VWAPs. During the 20% drop last Monday, we held above the December VWAP and the September VWAP helped define the early up trend earlier this year, so these are areas I'm watching if buyers reemerge.



SECTORS - PERFORMANCE



Sector	> 50MA	> 200MA	1wk Perf ▼	1mo Perf	3mo Perf	12mo Perf
SPDR Energy Select Sector Fund ETF	True	True	3.21%	5.66%	38.39%	-28.03%
SPDR Real Estate Select Sector Fund ETF	False	True	1.91%	-0.82%	0.28%	-7.27%
SPDR Utilities Select Sector Fund ETF	False	True	1.06%	-0.24%	-0.52%	-4.4%
SPDR Financial Select Sector Fund ETF	True	True	0.06%	8.14%	23.91%	0.88%
SPDR Health Care Select Sector Fund ETF	True	True	-0.36%	4.40%	9.46%	12.53%
SPDR Industrial Select Sector Fund ETF	True	True	-0.87%	-0.01%	9.65%	6.29%
SPDR Materials Select Sector Fund ETF	True	True	-1.53%	5.71%	14.48%	24.51%
SPDR Consumer Discretionary Select Sector Fund ETF	True	True	-1.77%	4.51%	7.49%	31.16%
SPDR Consumer Staples Select Sector Fund ETF	False	True	-1.9%	-2.37%	-0.79%	3.29%
SPDR Technology Select Sector Fund ETF	True	True	-2.55%	0.47%	4.9%	33.86%
SPDR Communication Services Select Sector ETF	False	True	-3.26%	-2.96%	7.44%	16.99%

The Financial sector has clawed its way back to the prior 2020 high with nearly all the sector's stocks back above the 200-day moving (96.9% of them at least). However, Vol-adjusted Momentum is 'overbought' and Friday's weakness sent XLF back below the key 2020 high. I'm watching if XLF sees a false breakout or if this is simply a re-test of the breakout point before a continued move higher. There's no doubt plenty of internals support from the individual stocks but the daily trend looks stretched and if price can't hold above \$31 then we could see some weakness as sellers step in.



Similar (but different) to Financials, Technology has weakened and is posed to break back under the prior September high. There's still 93% of stocks above the 200-day MA with no signs of a divergence in long-term breadth. However, we did see a small divergence in short-term breadth with the % above the 20-day MA making a lower high.

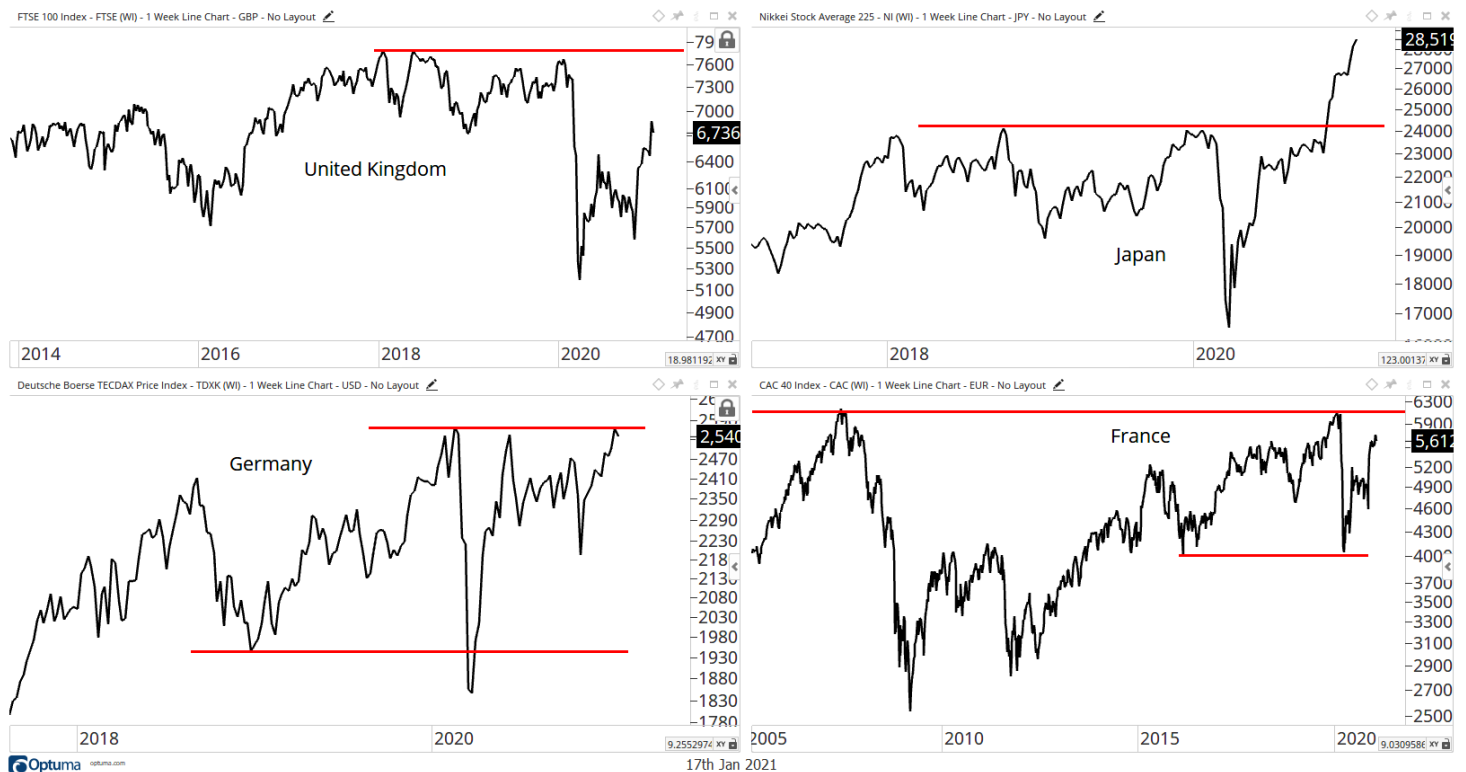


Both Emerging Markets and EAFE are at critical price points. EFA has advanced back to its 2018 high and Emerging Markets are working on breakout above the 2008 peak. We are at an important crossroads here. Either a massive breakout after a multi-year recovery or a key double top.

If the U.S. dollar strengthens further, that would put pressure on foreign markets, most notably emerging markets. For these breakouts to hold, there's going to need to be some reliance on the USD remaining weak.

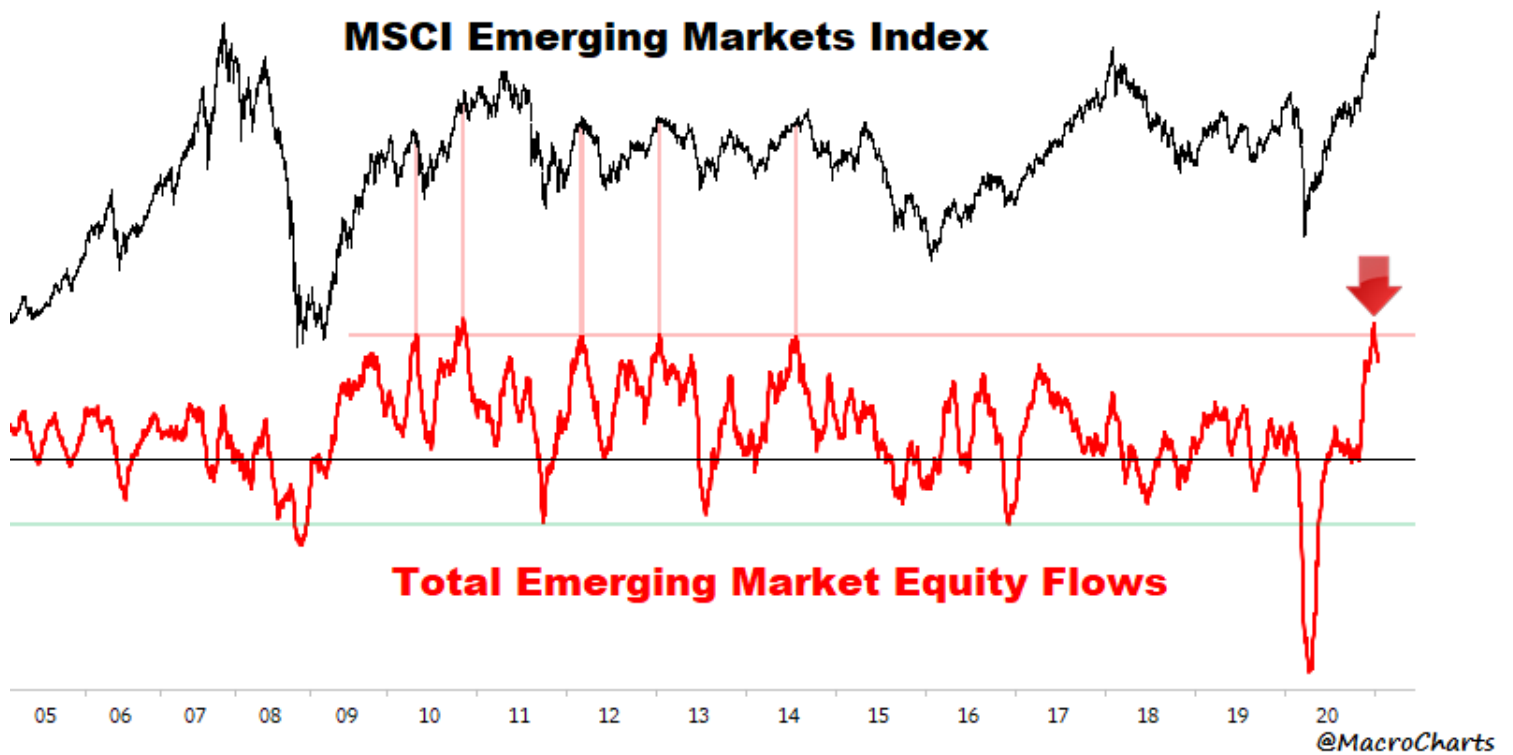


Looking at the four major countries that make up a big chunk of the MSCI EAFE Index, Germany stands out as it (so far) is unable to clear the prior 2020 high. Japan has continued higher, note it's Daily Sentiment Index is the highest of all futures markets at 85% bullish, so sentiment is getting a little hot in Japan right now. France and the UK still remain below their prior highs.



With the weakness in the U.S. Dollar, money has poured into emerging markets. The chart below from [MacroCharts](#) shows the equity flows into the Emerging market Index, rising to the prior peaks that preceded several pullbacks since 2010.

"Wall Street never changes. The pockets change, the suckers change, the stocks change, but Wall Street never changes, because human nature never changes." – Jesse Livermore



DAILY SENTIMENT INDEX



1 Day - Watch List - No Layout



Market	% Bullish ^	5MA	History
<input type="checkbox"/> VIX DSI	23	16.2	
<input type="checkbox"/> Cocoa DSI	30.00	26.00	
<input type="checkbox"/> US Dollar DSI	34.00	28.80	
<input type="checkbox"/> Lumber DSI	38.00	41.80	
<input type="checkbox"/> Palladium DSI	40.00	38.60	
<input type="checkbox"/> 10Y DSI	45.00	43.20	
<input type="checkbox"/> 5YR DSI	47.00	47.00	
<input type="checkbox"/> Coffee DSI	48.00	44.60	
<input type="checkbox"/> Cattle DSI	50.00	49.40	
<input type="checkbox"/> Gold DSI	53.00	59.60	
<input type="checkbox"/> Natural Gas DSI	55.00	53.20	
<input type="checkbox"/> Lean Hog DSI	61.00	60.80	
<input type="checkbox"/> Euro DSI	62.00	67.00	
<input type="checkbox"/> Swiss Franc DSI	64.00	70.20	
<input type="checkbox"/> Platinum DSI	66.00	67.20	
<input type="checkbox"/> Orange Juice DSI	67.00	70.20	
<input type="checkbox"/> British Pound DSI	67.00	69.80	

1 Day - Watch List - No Layout



Code	% Bullish ^	5MA	History
<input type="checkbox"/> Crude Oil DSI	68.00	70.80	
<input type="checkbox"/> EuroDollar DSI	69.00	69.00	
<input type="checkbox"/> Heating Oil DSI	70.00	70.20	
<input type="checkbox"/> Silver DSI	72.00	80	
<input type="checkbox"/> New Zealand Dollar DSI	74.00	78.60	
<input type="checkbox"/> SPX DSI	75.00	82.6	
<input type="checkbox"/> Nasdaq DSI	75.00	82.4	
<input type="checkbox"/> Mexican Peso DSI	75.00	74.80	
<input type="checkbox"/> CRB Index DSI	75.00	77.60	
<input type="checkbox"/> Copper DSI	75.00	78.40	
<input type="checkbox"/> Australian Dollar DSI	75.00	78.60	
<input type="checkbox"/> Gasoline DSI	77.00	81.4	
<input type="checkbox"/> Cotton DSI	77.00	80.8	
<input type="checkbox"/> Sugar DSI	80	78.20	
<input type="checkbox"/> Wheat DSI	81	75.20	
<input type="checkbox"/> Nikkei DSI	85	89.4	
<input type="checkbox"/> Corn DSI	87	89.4	

Source: trade-futures.com

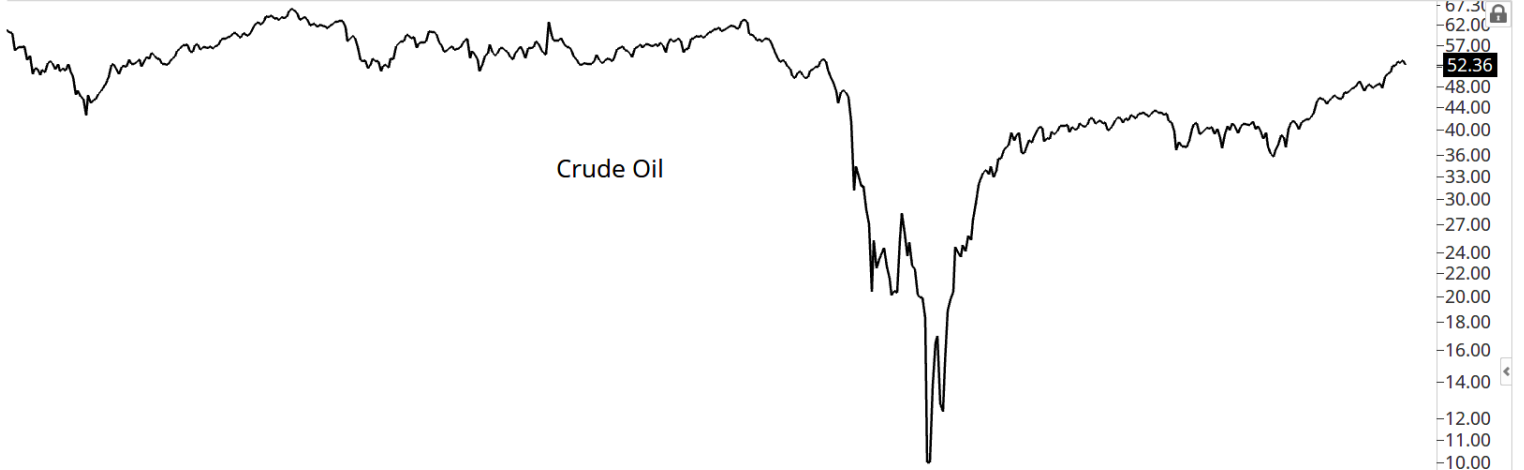
DAILY SENTIMENT INDEX



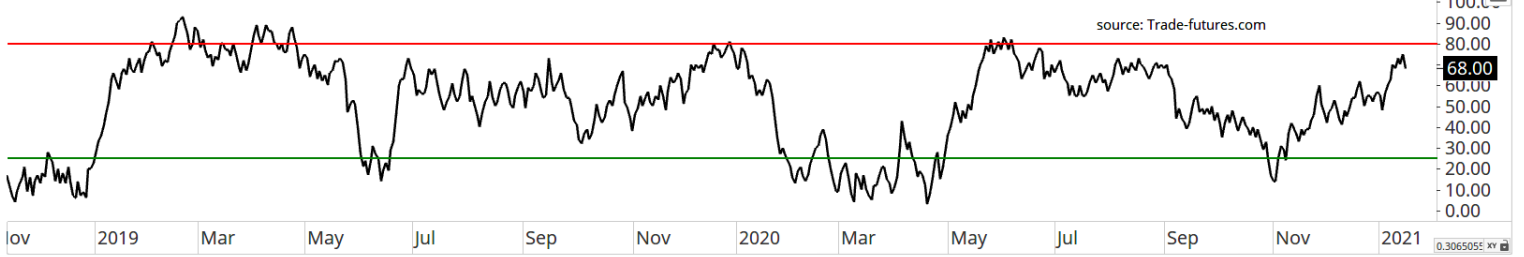
DAILY SENTIMENT INDEX



Crude Oil Light Sweet NYMEX - OILSW (W1) - 1 Day Line Chart - USD - No Layout



Crude Oil DSI (DSI) - 1 Day - USD



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DAILY SENTIMENT INDEX



Gold Futures - GCSpot (NYMEX) - 1 Day Line Chart - USD - No Layout



DAILY SENTIMENT INDEX



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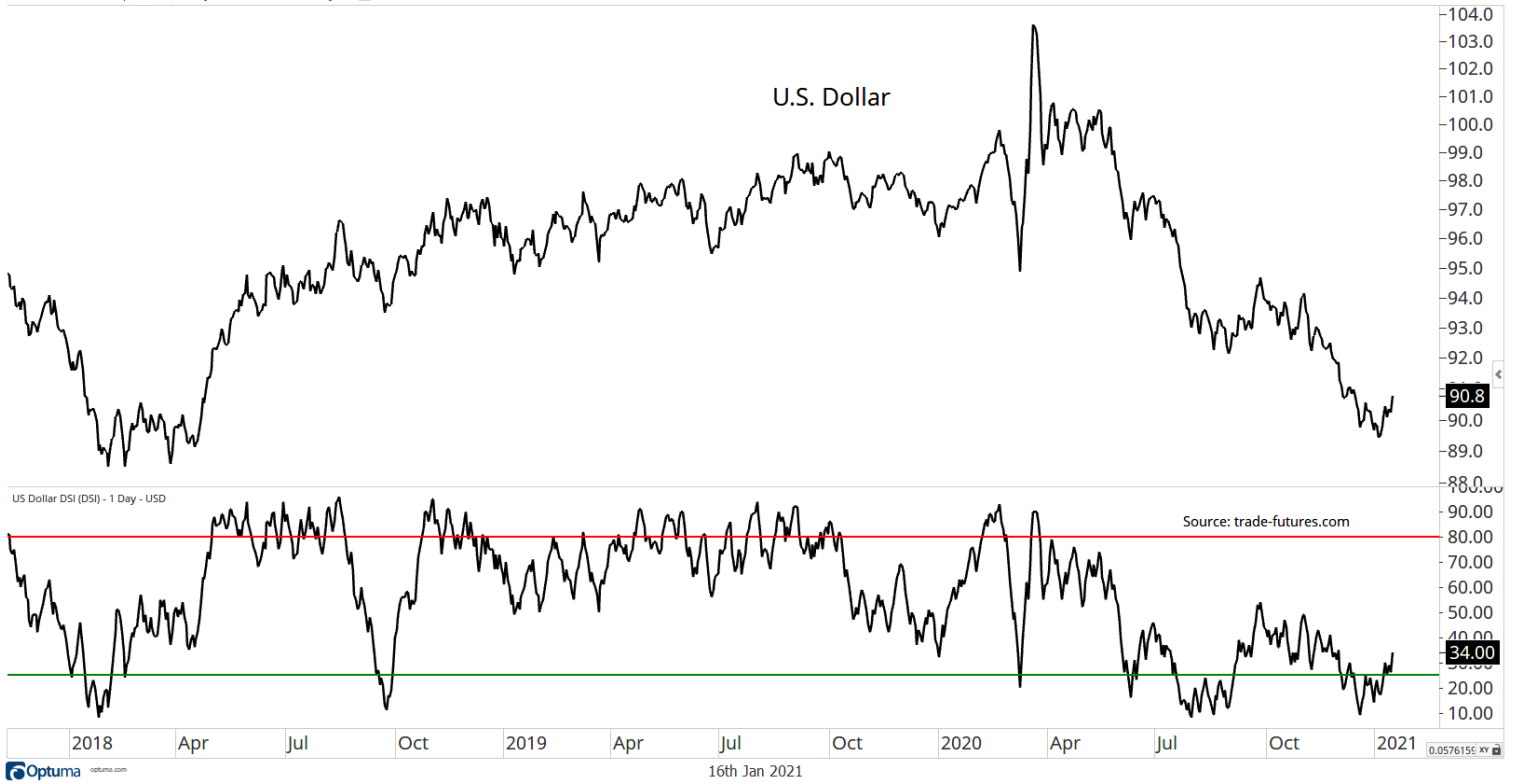
NASDAQ 100 Index - NDY (W) - 1 Day Line Chart - USD - No Layout



DAILY SENTIMENT INDEX



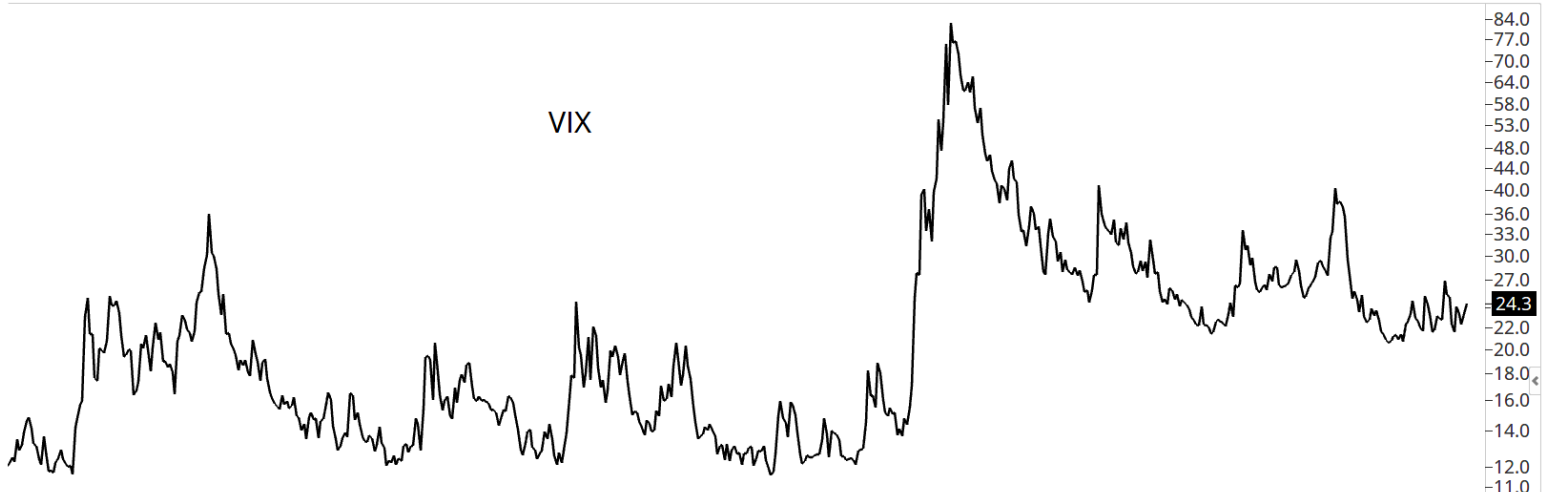
U.S. Dollar Index - DXSpot (AFUT) - 1 Day Line Chart - USD - No Layout



DAILY SENTIMENT INDEX



CBOE S&P 500 Volatility Index - VIX (CBOE) - 1 Day Line Chart - USD - No Layout

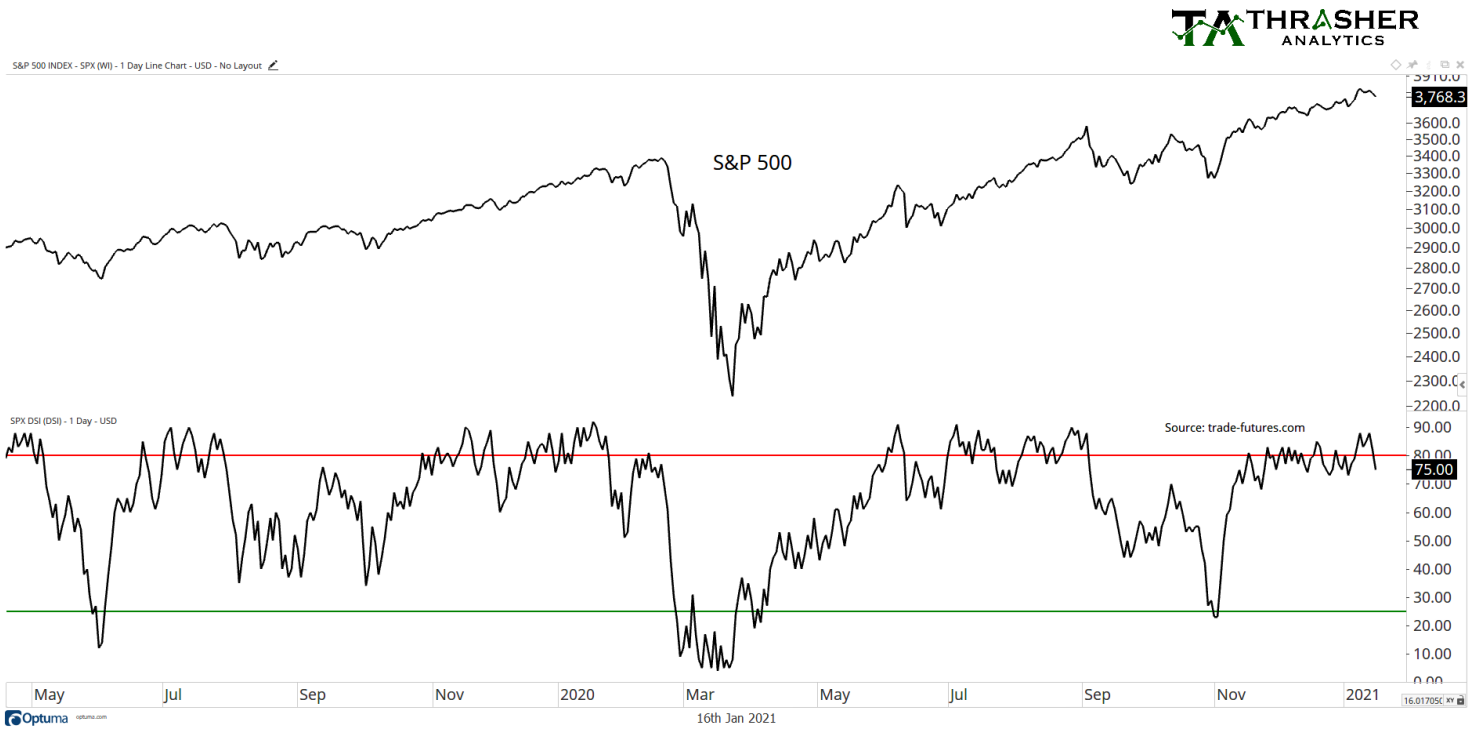


VIX DSI (DSI) - 1 Day - USD



Sep Nov 2019 Mar May Jul Sep Nov 2020 Mar May Jul Sep Nov 2021
Optima optima.com 16th Jan 2021 0.382806C xv

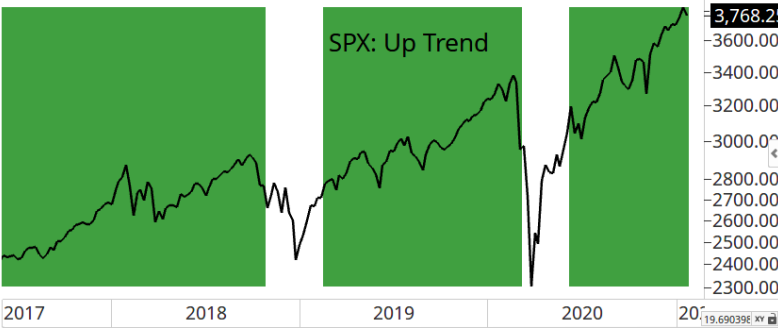
DAILY SENTIMENT INDEX



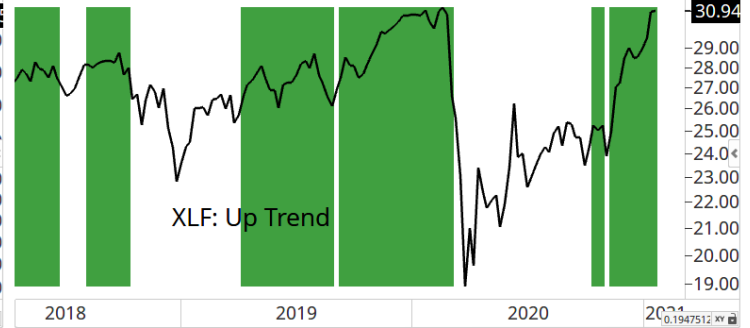
TREND MODELS



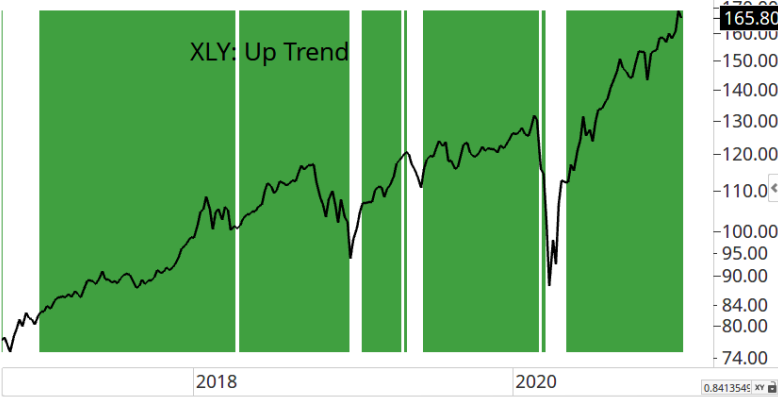
S&P 500 INDEX - SPX (WI) - 1 Week Line Chart - USD - No Layout



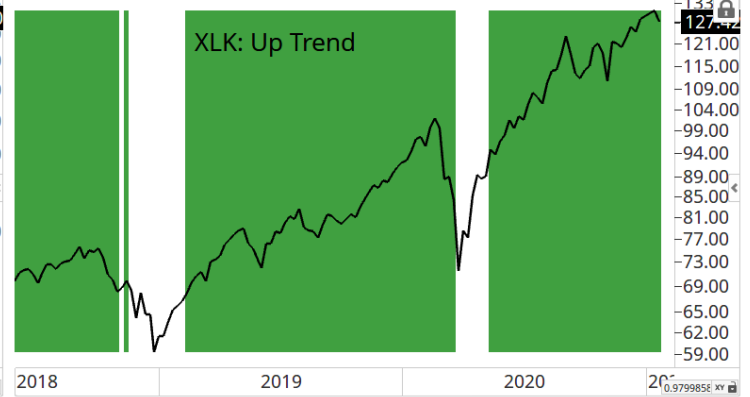
SPDR Financial Select Sector Fund ETF - XLF (US) - 1 Week Line Chart - USD - No Layout



SPDR Consumer Discretionary Select Sector Fund ETF - XLY (US) - 1 Week Line Chart - USD - No Layout



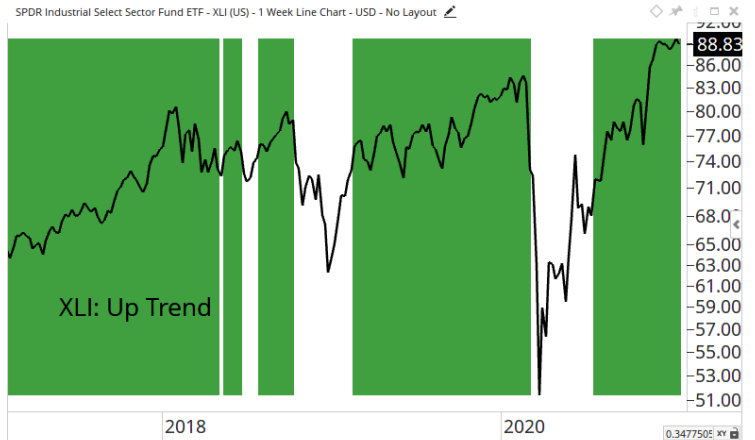
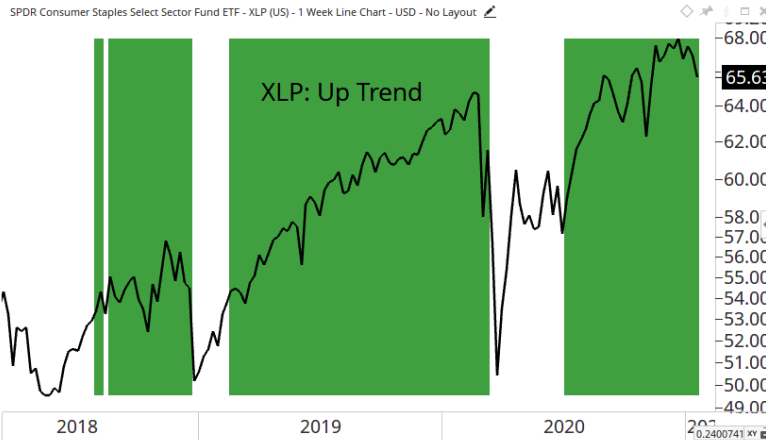
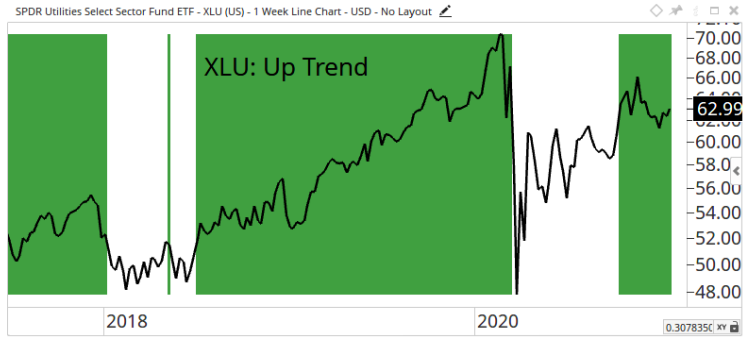
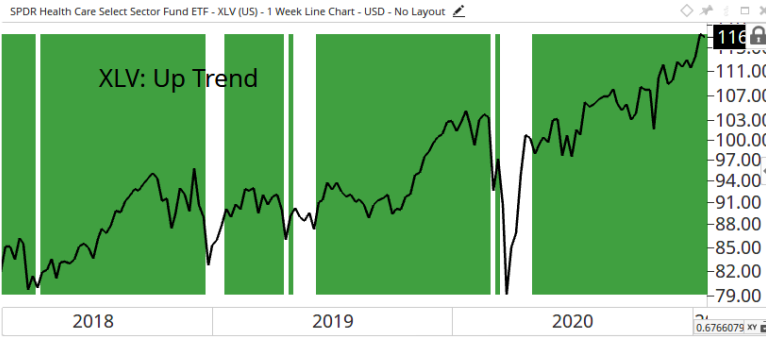
SPDR Technology Select Sector Fund ETF - XLK (US) - 1 Week Line Chart - USD - No Layout



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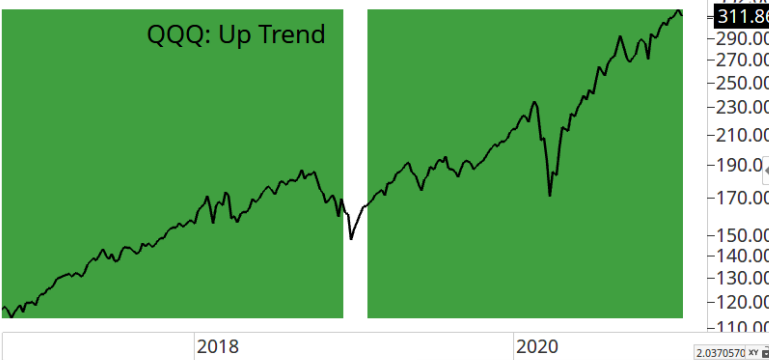
TREND MODELS



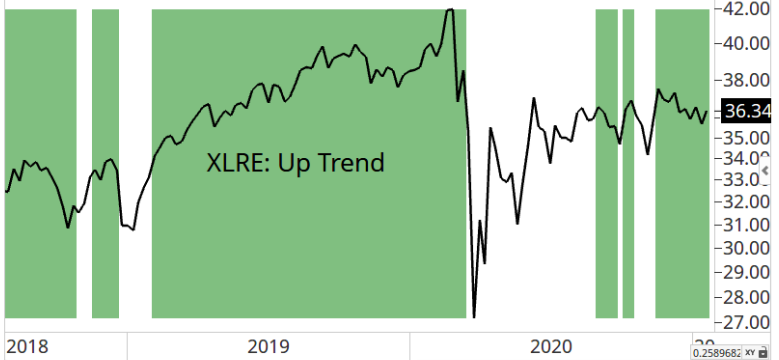
TREND MODELS



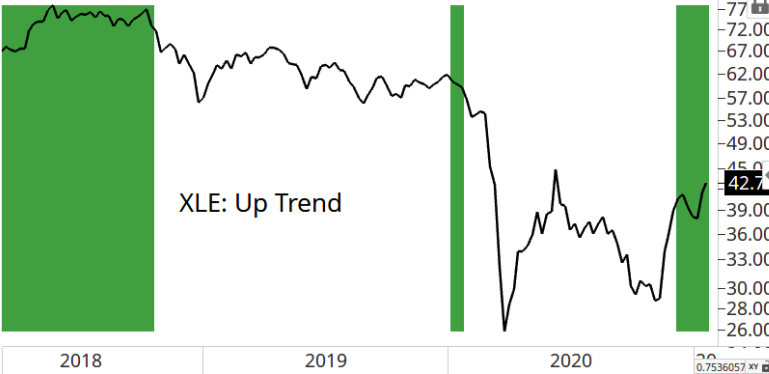
Invesco QQQ Trust - QQQ (US) - 1 Week Line Chart - USD - No Layout



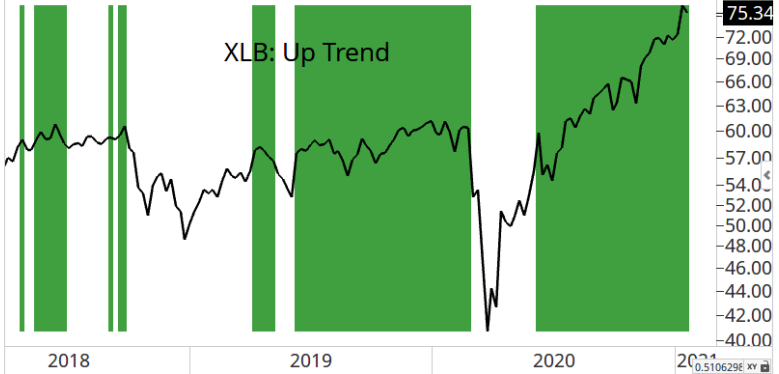
SPDR Real Estate Select Sector Fund ETF - XLRE (US) - 1 Week Line Chart - USD - No Layout



SPDR Energy Select Sector Fund ETF - XLE (US) - 1 Week Line Chart - USD - No Layout



SPDR Materials Select Sector Fund ETF - XLB (US) - 1 Week Line Chart - USD - No Layout



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